Distil plc

("Distil", the "Company" or the "Group")

Interim Results for the six months ended 30 September 2022

Distil plc (AIM:DIS), owner of premium drinks brands RedLeg Spiced Rum, Blackwoods Gin and Vodka, TRØVE Botanical Vodka and Blavod Black Vodka, announces its unaudited interim results for the six months ended 30 September 2022.

Operational highlights:

- Major move from UK Distributor to a new business model
- Relationship with major UK retail customers taken under direct control
- Significant reduction in UK market stock cover associated with removal of distributor
- Commercial Director appointed to manage major retail and exports to deliver ambitious growth plans
- Appointment of leading distributor to service the UK hospitality sector
- RedLeg TV advertisement developed and tested in two key regions
- Major listing for RedLeg Tropical with leading pub group
- New export market opened in Scandinavia
- Blackwoods Gin & Vodka Distillery and visitor centre at the Ardgowan site on track to open Spring 2023

Financial highlights:

- Turnover decreased by 68% to £0.46 million (2021: £1.44 million)
- Gross profit decreased by 74% to £210k (2021: £794k)
- Volumes (litres) decreased by 72%
- Investment in brand marketing and promotion decreased by 6% to £376k (2021: £398k)
- Administrative costs increased by 29% to £436k (*2021: £338k)
- Adjusted** Operating loss of £602k (2021: £58k profit)
- Loss before tax of £555k (2021: £45k loss)
- Cash reserves*** at period end of £0.95 million (2021: £4.22 million (£1.02 million excluding funds raised for, and applied to, Ardgowan investment))

* Administrative costs for the prior period adjusted to remove one-off transaction costs associated with the Ardgowan investment.

** Operating loss for the prior period adjusted for one-off transaction costs associated with the Ardgowan investment and for both periods for share-based payment expense.

*** Prior period cash reserves include proceeds from the fundraising completed in August 2021 amounting to £3.20 million (before expenses), of which £3 million was invested in Ardgowan by way of a convertible loan.

Don Goulding, Executive Chairman, commenting on these results said:

"The first six months of this financial year have seen major changes to our business model and the creation of a stronger platform for accelerated future growth.

The key change year-on-year is our decision to take direct control of relationships with our major UK retail customers, and to move away from our previous distributor, Hi-Spirits, managing our entire UK trade. From mid-September we transitioned to a hybrid model, which sees direct sales to our largest retail customers supported by a new, highly effective distributor, Marussia Beverages Group, covering hospitality, wholesale and other sectors where we are currently underdeveloped and have an opportunity for new growth.

To support this significant development, we appointed a Commercial Director to navigate the restructure and create new relationships with our major customers, broaden our on-trade distribution, and advance our international export network. The strengthening of our commercial operation will also support our drive for new product development.

While the remodel has seen a one-off hit to the half year figures as we transition, we are confident that this move will put Distil in a stronger position from which to accelerate future growth"

Executive Chairman's Statement

We are grateful to our UK distributor for helping us build our distribution platform especially in the off trade but, after several years with our chosen partner, we decided it was the right time to create a hybrid distribution platform which would facilitate the next phase of accelerated brand development and growth. We subsequently took direct control of relationships with our largest retail stockists in late September. This was made possible by the appointment of our Commercial Director who joined us in June and played an important role in selection of, and transition to, the right partner to broaden our list of stockists in the on-trade, online and premium retail. We subsequently began our distribution partnership with Marussia Beverages Group in September, and early signs are most encouraging.

This new business model has led to an associated reduction of stock in trade with little or no 'pipeline' replenishment into the UK distributor for almost four months as we worked through a contractual notice period and existing warehouse inventories were depleted. This has caused a sizeably negative hit to sales out from Distil, however there has been no real effect on actual consumer sales.

H1 also saw the launch of the first TV advertising campaign for RedLeg Spiced Rum in collaboration with ITV Adventures. The campaign, valued at over £500,000, ran on linear channels in two targeted regions and nationally across ITV Video-On-Demand services. Focused around bringing the RedLeg crab logo to life, the creative was named Ad of the Week in a leading trade publication and has already begun to deliver positive results for the brand. The Company views this initial test as the first step towards a robust above-the-line plan to accelerate brand growth.

Our priority remains settling our brands into the new distribution platform and restoring the momentum previously enjoyed with accelerated future growth.

Operations

Our operations team has continued to work well by keeping average year-on-year cost increases, per case, down to single digit figures despite increased energy costs, general inflationary pressures, and staff shortages throughout the supply chain, storage and freight. This has been managed through sourcing new suppliers and procurement consolidation.

We anticipate continued cost pressure in the short to medium-term and will maintain our efforts to mitigate price inflation.

Sustainability is increasingly becoming an important purchasing consideration for both consumers and trade customers alike. Over the past six months, our team has been working closely with suppliers at all stages of the chain in order to reduce the environmental impact of our brands. This includes sourcing the latest technologies and materials for closures, and exploring new sustainable substrates with our label suppliers. Sustainability will continue to be a key focus across our brands moving forward.

Ardgowan Distillery Project, Blackwoods distillery and visitor centre

Site clearance work began earlier in the year as planned and the building for Blackwoods Gin & Vodka distillery and visitor experience is now taking shape, with an anticipated opening in Spring 2023. Photos are available on the Distil website.

Good progress is also being made by the Ardgowan team on its whisky distillery, which remains on-track for a scheduled 2024 opening.

The Ardgowan Distillery project ambition is to become the most CO_2 efficient distillery in the Scotch Whisky industry, and Blackwoods will play a key role on site.

The option remains for Distil to invest a further £2m into the Ardgowan project and the team is working closely with Ardgowan to move this forward.

Results versus same period last year

Total revenues fell 68% to £0.46 million against the prior period, with UK sales adversely impacted by the removal of inventory from the distributor supply chain as we transitioned away from our UK distributor and to direct sales during Q2. The one-off negative impact on H1 sales of this change amounted to £0.67 million inventories depletions and £0.3million reduced promotional activity in the period leading to distributor contract termination. The transition to direct sales was complete at the end of September and we do not anticipate any further significant impact on sales in the second half of the current financial year attributable to the transition.

The Company sustained an operating loss (after adjusting for share-based payment expense) of £602k (2021: £58k profit after adjusting for share-based payment expense and one-off transaction costs associated with the Ardgowan investment).

Cash reserves stood at £0.95 million at the end of the period compared to £4.22 million at the end of the prior period, which included proceeds of £3.20 million (before expenses) from the fundraising completed in August 2021, of which £3 million was invested in Ardgowan by way of a convertible loan .

Outlook

The past six months have seen one-off impacts to the business. However, we are seeking to return to sales growth in seasonally stronger H2 and continue that growth into the next financial year and beyond as our new business model delivers additional stockists, new markets, and our marketing focus delivers strong campaigns and new products.

Rebuilding distribution across our brands is a key priority, and we have seen encouraging early results, having recently added new on-trade listings, including a major pub group, as well as new export markets, both of which will come through from October onwards.

The spirits market continues to perform well in the UK, with value +14% vs 3 years ago (Data: WSTA). The rum category in particular is showing good growth, reaching £1bn in sales and having overtaken whisky in the UK on trade in the first half of this year. RedLeg Spiced Rum is positioned in line with consumer needs, and our new partnership with Marussia Beverages UK will ensure we are well placed to benefit from market trends.

In addition to the appointment of a Commercial Director, we have subsequently appointed a new Marketing Director and a Head of Finance & Operations which will further strengthen our team and broaden our capabilities.

The current political and economic uncertainties are likely to see consumers shopping for true value in both on and off trade outlets, especially over the peak Christmas trading period and through Spring next year. Our brands are well positioned in this regard, and we aim to maintain a strong promotional support programme across all trade sectors. We anticipate full year performance for the year ending 31 March 2023 to be in line with current market expectations.

For further information please contact:

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Distil plc - Half Year Results
Consolidated comprehensive interim income statement

	Six months ended 30 September 2022 Un-audited £'000	**Six months ended 30 September 2021 Un-audited** £'000	**Year ended 31 March 2022 Audited** £'000
Revenue	460	1,435	2,942
Cost of sales	(250)	(641)	(1,313)
Gross profit	**210**	**794**	**1,629**
Administrative expenses:			
Advertising and promotional costs	(376)	(398)	(890)
Other administrative expenses	(436)	(410)	(812)
Share based payment expense	(30)	(30)	(59)
Total administrative expenses	(842)	(838)	(1,761)
Operating loss	**(632)**	**(44)**	**(132)**
Finance income	77	-	37
Finance expense	-	(1)	-
Loss before tax from continuing operations	**(555)**	**(45)**	**(95)**
Income tax	-	65	269
(Loss)/profit for the period	**(555)**	**20**	**174**
(Loss)/profit per share:			
From continuing operations			
Basic (pence per share)	(0.08)	0.01	0.03
Diluted (pence per share)	(0.08)	0.01	0.02

Consolidated interim statement of financial position	As at 30 September 2022 Un-audited £'000	As at 30 September 2021 Un-audited £'000	As at 31 March 2022 Audited £'000
ASSETS			
Non-current assets			
Property, plant and equipment	159	167	167
Intangible fixed assets	1,613	1,602	1,606
Financial assets	3,038	3,000	3,000
Deferred tax assets	445	241	445
Total non-current assets	**5,255**	**5,010**	**5,218**
Current assets			
Inventories	793	542	637
Trade and other receivables	586	674	687
Cash and cash equivalents	948	4,215	1,562
Total current assets	**2,327**	**5,431**	**2,886**
Total assets	**7,582**	**10,441**	**8,104**
LIABILITIES			
Current liabilities			
Trade and other payables	410	512	407
Financial liabilities	150	3,000	150
Total current liabilities	**560**	**3,512**	**557**
Total liabilities	**560**	**3,512**	**557**
Net assets	**7,022**	**6,929**	**7,547**
EQUITY			
Equity attributable to equity holders of the parent			
Share capital	1,474	1,308	1,474
Share premium	6,211	5,964	6,211
Share based payment reserve	228	147	198
Accumulated losses	(891)	(490)	(336)
Total equity	**7,022**	**6,929**	**7,547**

Consolidated interim cash flow statement

	Six months ended 30 September 2022 Un-audited £'000	Six months ended 30 September 2021 Un-audited £'000	Year ended 31 March 2022 Audited £'000
Cashflows from operating activities			
Loss before tax	(555)	(45)	(95)
Adjustments for non-cash/non-operating items:			
Finance income	(77)	-	(37)
Depreciation	8	8	16
Share based payment expense	30	30	59
Expenses settled by shares	-	-	15
	(594)	(7)	(42)
Movements in working capital			
(Increase)/decrease in inventories	(156)	11	(84)
Decrease/(increase) in trade receivables	101	(65)	(78)
Increase in trade payables	3	154	54
Cash (used in)/generated by operations	(52)	100	(108)
Net cash (used in)/generated by operating activities	**(646)**	**93**	**(150)**
Cashflows from investing activities			
Purchase of property plant & equipment	-	(8)	(16)
Expenditure relating to the acquisition and registration of licenses and trademarks	(7)	(4)	(8)
Payment on issue of convertible loan notes	-	-	(2,850)
Net cash used in investing activities	**(7)**	**(12)**	**(2,874)**
Cashflows from financing activities			
Proceeds from issue of shares	-	3,072	3,492
Interest received on convertible loans	38	-	32
Net cash generated by financing activities	**38**	**3,072**	**3,524**
Net (decrease)/increase in cash and cash equivalents	(615)	3,153	500
Cash & cash equivalents at the beginning of the period	1,563	1,062	1,062
Cash & cash equivalents at the end of the period	**948**	**4,215**	**1,562**

Notes to the interims accounts:

1. Basis of preparation

This interim consolidated financial information for the six months ended 30 September 2022 has been prepared in accordance with AIM rule 18, '*Half yearly reports and accounts'*. This interim consolidated financial information is not the group's statutory financial statements within the meaning of Section 434 of the Companies Act 2006 (and information as required by section 435 of the Companies Act 2006) and should be read in conjunction with the annual financial statements for the year ended 31 March 2022, which have been prepared under UK-adopted International Accounting Standards (IFRS) and have been delivered to the Register of Companies. The auditors have reported on those accounts; their report was unqualified, did not include references to any matters to which drew attention by way of emphasis of matter without qualifying their report and did not contain any statements under Section 498 (2) or (3) of the Companies Act 2006.

The interim consolidated financial information for the six months ended 30 September 2022 is unaudited. In the opinion of the Directors, the interim consolidated financial information presents fairly the financial position, and results from operations and cash flows for the period. Comparative numbers for the six months ended 30 September 2021 are also unaudited.

3. Availability

Copies of the interim report will be available from the Distil's registered office at 201 Temple Chambers, 3-7 Temple Avenue, EC4Y 0DT and also on www.distil.uk.com.

4. Approval of interim report

This interim report was approved by the board on 12 October 2022.